

Nassau County Sewer and Storm Water Finance Authority

Financial Statements as of and for
the Year Ended December 31, 2010 and
Independent Auditors' Reports

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
Nassau County Sewer and Storm Water Finance Authority:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Nassau County Sewer and Storm Water Finance Authority (the "Authority") as of December 31, 2010 and for the year then ended, which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority as of December 31, 2010 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 and 4 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2011, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

June 27, 2011

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Nassau County Sewer and Storm Water Finance Authority (the "Authority") was established in 2003 by the State of New York (the "State") under the Nassau County Sewer and Storm Water Finance Authority Act, codified as Title 10-D of Article 5 of the Public Authorities Law of the State as a public benefit corporation. The State Legislature determined the creation of the Authority to be an effective mechanism to achieve substantial savings to Nassau County (the "County") for past and prospective sewer and storm water resources capital investments. The Authority has been established for the limited objectives of refinancing outstanding sewer and storm water resources debt issued by or on behalf of the County and financing future County sewer and storm water resources projects. The Authority may issue debt in an amount up to \$350,000,000 for such purposes (exclusive of debt issued to refund or otherwise repay Authority debt).

The Authority has acquired all of the sewer and storm water resources facilities, buildings, equipment, and related assets, other than land (the "System"), of the County pursuant to a financing and acquisition agreement dated as of March 1, 2004, by and between the Authority and the County (the "Agreement"). The Authority is paying for the System in installments by undertaking to pay debt service on outstanding bonds issued by or on behalf of the County originally issued to finance the System ("County Bonds"). In addition, as part of such purchase price, the Authority may, at the request of the County, refinance County Bonds. Most of the Authority's revenues are derived through the imposition by the County of assessments for sewer and storm water resources services. The County has directed each city and town receiver of taxes to pay all such assessments directly to the trustee for the Authority's bonds. The Authority retains sufficient funds to service all debt (including County Bonds), and pay its operating expenses. Excess funds are remitted to the Nassau County Sewer and Storm Water Resources District (the "District"). The District is responsible for paying for the operations of the County's sewer and storm water resources services.

The Authority did not issue debt in 2010 and 2009.

Overview of the Financial Statements

The financial statements of the Authority consist of the following components: management's discussion and analysis (this section), financial statements, and notes to the financial statements.

Management's discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the years ended December 31, 2010 and 2009. The overview, which covers the most important financial events of the periods, should be read in conjunction with the Authority's financial statements, including the notes to the financial statements.

Entity-wide financial statements of the Authority are in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The entity-wide financial statements use the economic resource measurement focus and accrual basis of accounting. These statements are presented to display information about the reporting entity as a whole. The statement of net assets presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. The statement of activities presents information showing how the Authority's net assets changed during the period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Governmental fund financial statements are presented using the current financial resources measurement focus and modified accrual basis of accounting. These statements are the balance sheets and the statement of revenues, expenditures and changes in fund balance. Revenue is accrued when it becomes both measurable and available to finance expenditures in the current fiscal period.

The financial statements include reconciliations between the entity-wide and governmental fund financial statements.

Accompanying notes to the financial statements are an integral part of the financial statements.

Financial Highlights and Overall Analysis (in thousands)

The Authority started operations June 4, 2004, and received its initial revenue from the District through a permanent cash transfer of \$73,970. The Authority's main ongoing revenues are the County sewer assessments, which are paid directly to the Authority's trustee twice a year (in February and August). Assessments were \$116,038 in 2010 and \$110,037 in 2009 or 99.9% and 99.8% of total revenues, respectively. Transfers to the District represent reimbursement to the District for debt service on County Bonds it paid directly to the County, plus the sewer assessments, net of debt service and related expenses paid by the Authority as per the Agreement. Transfers to the District, which are a use of funds and not included in total expenses, were \$70,085 in 2010 and \$62,144 in 2009. Income derived from the investment of available cash in short-term federal securities was \$28 in 2010 and \$177 in 2009 or 0.1% and 0.2% of total revenues, respectively. Investment income declined in 2010 due to market conditions. Transfers to the Authority from the County of \$133,200 consist of capital assets transferred in the amount of \$164,127 less the issuance and reallocation of debt of \$30,927.

Entity-Wide Financial Statements (in thousands)

Total revenues, net of transfers to the District, were \$51,443 in 2010 and \$52,624 in 2009. The primary recurring revenues and other financing sources are sewer assessments and investment income.

Total expenses were \$62,552 in 2010 and \$59,727 in 2009. The primary expenses in 2010 were depreciation of \$41,744, interest on Authority debt of \$8,240 and interest on County Bonds of \$12,025.

Governmental Fund Financial Statements (in thousands)

Total revenues and other financing sources were \$165,823 in 2010 and \$161,056 in 2009. The primary sources of revenues are sewer assessments and investment income.

Authority debt service increased in 2010, as compared to 2009, in accordance with the amortization schedules for Authority bonds. Other financing uses increased in 2010 due mainly to the increase of the transfer to the District.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

STATEMENT OF NET ASSETS

AS OF DECEMBER 31, 2010 (in thousands)

ASSETS

Cash and cash equivalents	\$ 21,989
Receivables	29
Buildings — net of accumulated depreciation	265,852
Infrastructure — net of accumulated depreciation	692,263
Equipment — net of accumulated depreciation	1,507
Issuance costs — net of accumulated amortization	<u>4,797</u>
 TOTAL	 <u>\$ 986,437</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accrued expenses	\$ 30
Accrued interest payable-Authority bonds	1,421
Authority bonds payable:	
Due within one year	7,360
Due in more than one year	154,595
Original issue premium — net of accumulated amortization	2,148
Due to County:	
Due within one year	25,155
Due in more than one year	279,762
Accrued interest payable	<u>2,009</u>
 Total liabilities	 <u>472,480</u>

NET ASSETS:

Invested in capital assets, net of related debt	491,969
Unrestricted	<u>21,988</u>
 Total net assets	 <u>513,957</u>

TOTAL	<u>\$ 986,437</u>
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See notes to financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands)

	<u>Governmental Activities</u>
REVENUES:	
Sewer assessments	\$ 116,038
Less transfer to District	(70,085)
Income from debt payments made directly by NIFA	5,319
Investment income	28
Amortization of original issue premium	<u>143</u>
Total revenues (net)	<u>51,443</u>
EXPENSES:	
Professional fees	261
Depreciation	41,744
Interest expense:	
Authority bonds and commercial paper notes	8,240
County Bonds	12,025
Amortization of issuance costs	<u>282</u>
Total expenses	<u>62,552</u>
TRANSFER IN FROM COUNTY	<u>133,200</u>
CHANGE IN NET ASSETS	122,091
NET ASSETS — Beginning of year	<u>391,866</u>
NET ASSETS — End of year	<u><u>\$ 513,957</u></u>

See notes to financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

BALANCE SHEET

AS OF DECEMBER 31, 2010 (in thousands)

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ 21,989	\$ -	\$ 21,989
Interest receivable	<u>29</u>	<u></u>	<u>29</u>
TOTAL ASSETS	<u>\$ 22,018</u>	<u>\$ -</u>	<u>\$ 22,018</u>
LIABILITIES AND FUND BALANCE:			
Fund balance — unreserved	<u>\$ 22,018</u>	<u>\$ -</u>	<u>\$ 22,018</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 22,018</u>	<u>\$ -</u>	<u>\$ 22,018</u>

See notes to financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands)

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Sewer assessments	\$ 116,038	\$ -	\$ 116,038
Interest Income	<u>30</u>	<u></u>	<u>30</u>
Total revenues	<u>116,068</u>	<u>-</u>	<u>116,068</u>
OTHER FINANCING SOURCES:			
Transfer from general fund	<u>-</u>	<u>49,755</u>	<u>49,755</u>
Total revenues and other financing sources	<u>116,068</u>	<u>49,755</u>	<u>165,823</u>
EXPENDITURES:			
Authority Bond principal		7,295	7,295
Interest expense — CP and Authority Debt Service		8,321	8,321
Professional fees	<u>113</u>	<u>169</u>	<u>282</u>
Total expenditures	<u>113</u>	<u>15,785</u>	<u>15,898</u>
OTHER FINANCING USES:			
Deposited with paying agent — County debt principal		23,866	23,866
Deposited with paying agent — County debt interest		10,104	10,104
Transfer to debt service fund	49,755		49,755
Transfer to District	<u>70,085</u>	<u></u>	<u>70,085</u>
Total other financing uses	<u>119,840</u>	<u>33,970</u>	<u>153,810</u>
Total expenditures and other financing uses	<u>119,953</u>	<u>49,755</u>	<u>169,708</u>
NET EXPENDITURES AND OTHER FINANCING USES OVER REVENUES AND OTHER FINANCING SOURCES	(3,885)	-	(3,885)
FUND BALANCE — Beginning of Year	<u>25,903</u>	<u></u>	<u>25,903</u>
FUND BALANCE — End of Year	<u>\$ 22,018</u>	<u>\$ -</u>	<u>\$ 22,018</u>

See notes to financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands)

TOTAL FUND BALANCE — Governmental funds	\$	22,018
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Amounts reported for governmental activities

in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current
period and, accordingly, not reported in the funds:

Unamortized original issue premium	(2,148)
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Bonds payable	(161,955)
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Accrued expenses	(30)
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Authority Bond interest payable	(1,421)
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County Bond interest payable	(2,009)
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Due to County	(304,917)
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Issuance costs, net of accumulated amortization	4,797
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Long-term assets, net of accumulated amortization, are not available to pay for current period expenditures and, therefore, are deferred in the funds	<u>959,622</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$</u>	<u>513,957</u>
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See notes to financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2010 (in thousands)

Net change in fund balance — Total governmental funds	\$ (3,885)
Amounts reported for governmental activities in the statement of net assets are different because:	
Payments to paying agents for bond principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets	31,161
Governmental funds report premium on debt issued as revenue when received and is amortized over the life of the debt in the statements of activities.	143
Principal payments made directly by NIFA are reported in the statements of activities as revenue and as a reduction in the obligation to NIFA; it is not included in the governmental funds	3,133
Interest payments made directly by NIFA are reported in the Statement of Activities as a revenue and an expenditure; they are not included in the governmental funds	2,184
Interest expense on Authority debt is reported in the statements of activities on the accrual basis, but interest is reported as an expenditure in governmental funds when outlay of financial resources is required	82
Accrued interest expense on obligations to the County is reported in the statements of activities on the accrual basis, but interest is reported as an expenditure in governmental funds when outlay of financial resources is required	(1,922)
Governmental funds report costs of debt issuance as expenditures. However, in the statements of activities, the costs of debt issuance are amortized over the lives of the debt	(282)
The assumption of new debt or transfer in of capital assets net of related debt in the statements of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds	133,200
Depreciation expense reported in the statements of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds	(41,744)
Professional fees reported in the statements of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds	21
NET CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 122,091</u>

See notes to financial statements.

NASSAU COUNTY SEWER AND STORM WATER FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2010 (IN THOUSANDS)

1. ORGANIZATION

The Nassau County Sewer and Storm Water Finance Authority (the “Authority”) was established in 2003 by the State of New York (the “State”) under the Nassau County Sewer and Storm Water Finance Authority Act, codified as Title 10-D of Article 5 of the Public Authorities Law of the State (the “Act”), as a public benefit corporation. Although legally separate and independent of Nassau County (the “County”), the Authority is a component unit of the County for County financial reporting purposes and, accordingly, is included in the County’s financial statements.

The Authority, pursuant to State law, is composed of a seven-member governing body, which is appointed by the County Executive of the County with confirmation by the County legislature. Other than initial terms, each member serves a three-year term without compensation.

The State has established the Authority for the objective of refinancing outstanding sewer and storm water resources debt issued by or on behalf of the County and financing future County sewer and storm water resources projects. The Authority may issue debt in an amount up to \$350,000 for such purposes (exclusive of debt issued to refund or otherwise repay Authority debt).

As of March 1, 2004, the County and the Authority entered into a financing and acquisition agreement (the “Agreement”). Under the Agreement, the County agreed to sell and transfer to the Authority the sewer and storm water resources facilities, buildings, equipment, and related assets other than land (the “System”) of the County.

The Authority is paying for the System in installments, the first of which was paid on the closing date of the Authority’s Series 2004A bond offering, June 4, 2004. Such payments are calculated as the amounts needed to pay debt service on bonds of the County then outstanding and having been therefore issued for the System, including bonds issued by the Nassau County Interim Finance Authority (NIFA) on behalf of the County (“County Bonds”) (see note 3). The payments are made at the time bonds are issued to refund County Bonds, and as necessary for purposes of permitting the County to satisfy debt service on such County Bonds payable until so refunded, or if not refunded at all, until maturity.

The County also agreed to transfer to the Authority and the Authority agreed to acquire from the County any additional System facilities, which became a part of the System including those facilities financed by obligations of the County or NIFA after the closing date; and, the Authority shall pay debt service on such new County Bonds in the same manner and time as set forth above for the payment of County Bonds. Annually, the obligation to pay for expenditures incurred by the County, for such projects, is transferred to the Authority. Additionally, the County agrees that, during the term of the Agreement, it will not sell, lease, mortgage, or otherwise give up or encumber the real property upon which the facilities are situated.

The Authority started operations June 4, 2004 and received its initial revenue from the Nassau County Sewer and Storm Water Resources District (the “District”) through a permanent cash transfer of \$73,970. The County has directed each City and Town Receiver of Taxes to pay all such assessments directly to the trustee for the Authority’s bonds. The Authority retains sufficient funds to service all debt (including County Bonds), and pay its operating expenses. Excess funds are remitted to the District. The District is responsible for paying for the operations of the County’s sewerage and storm water resources services, including repair and maintenance of the System.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Authority's management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from these estimates.

In accordance with the Agreement, the Authority's fiscal year is the calendar year.

The entity-wide financial statements of the Authority, which include the statement of net assets and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. The statements of net assets and statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

The Authority's governmental fund financial statements, which include the balance sheets and the statement of revenues, expenditures, and changes in fund balance are presented using the current financial resources measurement focus and modified accrual basis of accounting. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred, except for unmatured debt service on bonds payable, which is recognized when due.

The Authority uses two governmental funds to report its financial position and results of operations. The general fund accounts for sewer assessments received by the Authority and for professional fees and other administrative costs. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on the Authority's bonds, as well as payments pursuant to its obligations to the County.

Bond premiums, discounts, and issuance costs for bonds are capitalized and amortized over the lives of the related debt issues using the straight-line method in the entity-wide financial statements. The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued, together with bond premiums, is reported as other financing sources, while discounts on debt issuance, credit enhancement costs, and other costs of issuance are reported as debt service expenditures.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. In the governmental fund statements, interest expenditures are recognized when funds are paid to service debt.

New Accounting Standards — In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which should be implemented beginning with fiscal years ending December 31, 2011. The Authority has not completed the process of evaluating the impact that will result from implementing this Statement and is therefore unable to determine the impact that adopting this will have on its financial position and results of operations when such statement is adopted.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which were both effective immediately. Neither of these Statements have an impact on the Authority's financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which should be implemented beginning with fiscal years ending August 31, 2012. Statement No. 57 provides guidance on two implementation issues related to other postemployment benefits (OPEB). The statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. The statement also amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual employer OPEB plans that are eligible. Additionally, Statement No. 57 clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. There was no impact on the Authority's financial statements as a result of the implementation of Statement No. 57.

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. Statement No. 58 is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. There was no impact on the Authority's financial statements as a result of the implementation of Statement No. 58.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. Statement No. 59 establishes additional guidance and provides an update to improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarification of existing standards. There was no impact on the Authority's financial statements as a result of the implementation of Statement No. 59.

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 61, *The Financial Reporting Entity: Omnibus — An Amendment of GASB Statements Nos. 14 and 34*. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The Authority is therefore unable to disclose the impact GASB Statement No. 61 will have on its financial position, results of operations, and cash flows when such statement is adopted. The Statement is effective for financial statements prepared by state and local governments for periods beginning after December 15, 2011.

The Authority has not completed the process of evaluating the impact of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*. The Statement objective is to incorporate pronouncements that do not contradict or conflict with GASB pronouncements. The Authority is therefore unable to disclose the impact GASB Statement No. 62 will have on its financial position, results of operations, and cash flows when such statement is adopted. This Statement is effective for financial statements for periods beginning after December 15, 2011.

3. TRANSACTIONS WITH AND ON BEHALF OF THE COUNTY

The Act and other legal documents of the Authority establish various financial relationships between the Authority and the County. Pursuant to the Agreement to acquire the System, the Authority is obligated to pay debt service on County Bonds.

4. CASH AND CASH EQUIVALENTS

Cash equivalents consist of investments in United States Treasury Bills in the amount of \$21,986 (market value). These investments are defined under GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, as cash equivalents since they have original maturities of three months or less. These investments are explicitly guaranteed by the U.S. government.

Financial instruments, which potentially subject the Authority to concentrations of credit risk, are cash, cash equivalents and investments. The Authority limits its credit risk by placing its cash, cash equivalents and investments with the Authority's trustee, which, at year end had invested the Authority's funds in U.S. Government securities.

As of December 31, 2010, the following summarizes the Authority's cash and cash equivalents:

	Held by Trustee
Cash	\$ 3
U.S. Treasury bills	<u>21,986</u>
Total cash and cash equivalents	<u>\$ 21,989</u>

5. CAPITAL ASSETS

Capital assets are recorded at cost and are depreciated over their economic useful life using the straight-line method.

A summary of capital assets is as follows:

	Balance at December 31, 2009	Additions	Deletions	Balance at December 31, 2010	Economic Useful Life
Buildings	\$ 326,202	\$ 125	\$ -	\$ 326,327	40 years
Infrastructure	727,408	163,619		891,027	15–40 years
Equipment	<u>1,824</u>	<u>389</u>	<u>(7)</u>	<u>2,206</u>	5 years
Total capital assets	<u>1,055,434</u>	<u>164,133</u>	<u>(7)</u>	<u>1,219,560</u>	
Less accumulated depreciation:					
Buildings	50,993	9,482		60,475	
Infrastructure	166,764	32,000		198,764	
Equipment	<u>437</u>	<u>262</u>		<u>699</u>	
Total accumulated depreciation	<u>218,194</u>	<u>41,744</u>	<u>-</u>	<u>259,938</u>	
Capital assets - net	<u>\$ 837,240</u>	<u>\$ 122,389</u>	<u>\$ (7)</u>	<u>\$ 959,622</u>	

6. BONDS PAYABLE

The Authority issued its System Revenue Bonds, 2008 Series A (the “2008A Bonds”) pursuant to the Authority’s General Revenue Bond Resolution dated as of March 1, 2004, as supplemented by a First Supplemental Resolution dated as of March 1, 2004.

The 2008A Bonds were issued to refund the 2004 Series A (the “2004A Bonds”) variable rate Authority Bonds, to refund all outstanding Commercial Paper at December 31, 2008, and to pay for the related costs of issuance and refinancing.

Each 2008A Bond maturing on November 1, 2023 and November 1, 2028 are subject to redemption on or after November 1, 2018 at the option of the Authority, in whole, or in part by lot on any date, at a Redemption Price of 100% of the principal amount of such 2008A Bond or portions thereof to be redeemed, plus accrued interest to the date of redemption. The 2008A Bonds bear interest rates ranging from 3.250% to 5.375%, per annum.

Berkshire Hathaway Assurance Corporation has provided a financial guarantee insurance policy totaling \$120,840 of the Series 2008A bonds. The policy guarantees the scheduled payment of principal and interest on the Insured Bonds maturing January 1, 2014 through January 1, 2028.

The Authority issued its System Revenue Bonds, 2004 Series B (the “2004B Bonds”) pursuant to the Authority’s General Revenue Bond Resolution dated as of March 1, 2004, as supplemented by a Second Supplemental Resolution dated as of October 1, 2004. The 2004B Bonds include a \$1,787 original issue premium.

The 2004B Bonds were issued to refund a portion of the County Bonds associated with the System and to pay for the related costs of issuance and refinancing.

Each 2004B Bond maturing on and after October 1, 2015, is subject to redemption on or after October 1, 2014, at the option of the Authority, in whole on any date, or in part by lot on any interest payment date, at a redemption price of 100% of the principal amount of such 2004B Bond or portion thereof to be redeemed, plus accrued interest to the date of redemption. The 2004B Bonds bear interest rates ranging from 2.5% to 5.0%, per annum.

MBIA Insurance Corporation has provided a financial guarantee insurance policy, which guarantees the scheduled payment of principal and interest, of the Series 2004B bonds.

As of December 31, 2010 there was no commercial paper outstanding.

Aggregate 2004B and 2008A Authority bonds debt service to maturity as of December 31, 2010 is the following:

Years Ending	Principal	Interest	Total
2011	\$ 7,360	\$ 7,992	\$ 15,352
2012	7,800	7,679	15,479
2013	7,955	7,310	15,265
2014	8,425	6,957	15,382
2015	8,545	6,607	15,152
2016-2020	48,420	26,754	75,174
2021-2025	50,125	13,552	63,677
2026-2030	<u>23,325</u>	<u>2,551</u>	<u>25,876</u>
Total	<u>\$ 161,955</u>	<u>\$ 79,402</u>	<u>\$ 241,357</u>

Aggregate debt service to maturity on County Bonds (amounts due to the County) as of December 31, 2010 is the following:

Years Ending	Principal	Interest	Total
2011	\$ 25,155	\$ 15,087	\$ 40,242
2012	23,560	13,899	37,459
2013	20,439	12,774	33,213
2014	20,262	11,764	32,026
2015	18,736	10,808	29,544
2016-2020	82,002	41,941	123,943
2021-2025	62,719	22,027	84,746
2026-2030	25,205	10,927	36,132
Thereafter	<u>26,839</u>	<u>5,444</u>	<u>32,283</u>
	<u>\$ 304,917</u>	<u>\$ 144,671</u>	<u>\$ 449,588</u>

7. DEFERRED CHARGES

Deferred charges for the cost of issuance from the defeasance of the Series 2004B and 2008A Bonds are as follows:

Description	Amount
Cost of issuance	\$ 1,589
Underwriter's discount	1,024
Premium	2,619
Fees	<u>411</u>
Total	5,643
Less accumulated amortization	<u>846</u>
Cost of issuance — net of amortization	<u>\$ 4,797</u>

Such costs are amortized over the life of the bonds.

8. ORIGINAL ISSUE PREMIUM — NET OF ACCUMULATED AMORTIZATION

Original issue premium as of December 31, 2010 is as follows:

Original Issue Premium	\$ 2,868
Less: Accumulated Amortization	<u>720</u>
Original Issue Premium — Net of Accumulated Amortization	<u>\$ 2,148</u>

9. TRANSFER OF ASSETS

During 2010, the County issued the 2010 Series A-F bonds, which financed sewer and storm water related projects. The Authority obtained additional information related to outstanding debt associated with the transfer of capital assets - net of related debt at the Authority's inception. This resulted in an additional amount due to the County for the related debt service totaling \$30,927.

The transfers of assets due to the County are as follows:

County Series 2010A-F and reallocation of debt	\$ (30,927)
Capital assets transferred - net	<u>164,127</u>
Net transfer in	<u>\$ 133,200</u>

* * * * *

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board of Directors of
Nassau County Sewer and Storm Water Finance Authority

We have audited the financial statements of the Nassau County Sewer and Storm Water Finance Authority (the "Authority"), as of and for the year ended December 31, 2010, and have issued our report thereon dated June 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

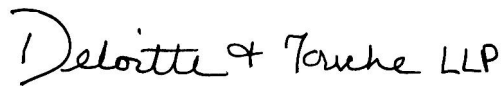
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Board of Directors and the Office of the State Comptroller, State of New York and is not intended to be, and should not be, used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

June 27, 2011